

# Living and Working in Paradise Carteret County, NC

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# Agenda

- Housing market economics
- Market failure
- Community evaluation
- Intervention strategies
- Critical success factors
- Moving Forward

# Housing Exercise

What is Housing?

# Housing

- Shelter
- American Dream
- Basis of a Community
- Big Business
- Investment
- Commodity

# Coastal and resort community housing market economics

# The Housing Market

## (Classical Economic Version)

- Supply will adjust to equal demand
- If the supply of housing gets out of balance with demand, the suppliers of housing will adjust and make more housing available

# The Housing Market

## (Reality in a Resort Community)

- Supply does not adjust to equal demand
- External factors (“externalities”) affect the supply of housing and the demand for housing

# Resort Community Externalities

- Retiree and second home buyers
  - Wealth derived from another economy
- Growth management, land use, and zoning regulations
  - Control growth
  - Protect the environment
  - Protect the image of paradise
- Natural barriers
  - water, mountains

# Regulating Paradise

- There is a desire to keep paradise unique
  - Keep it attractive
  - Preserve the environment
  - Maintain the postcard image of paradise
- Pass growth management regulations
- Create other zoning and land use regulations

# Growth Management Regulations

- Limit the number of houses that can be constructed
- Builders focus on supplying larger, more expensive units
- Builders do not supply smaller, more affordable units

# Retiree and Second Home Externality

- Buyer's whose wealth is derived from another economy
  - Wealthier economy
  - New York, Washington, International, etc.
- Buy houses locally
- Houses that seem expensive to the locals, appear to be inexpensive to the second home buyer.

# Retirees and Second Home Buyers

- Baby boomers are aging, and have significant wealth
- The US tax code gives favorable treatment to real estate ownership
- Real estate markets have been strong
  - Real estate is an alternative to the stock and bond markets

# Second Homes

- Bring a different type of resident to the community
- Second homes are job generators

# Impact on a Community

- Supply and demand become out of balance
  - Regulations and natural barriers limit the supply
  - Retirees and second home buyers increase local demand
- Locals are outbid for housing by wealthier buyers from an external economy

# Impact on a Community

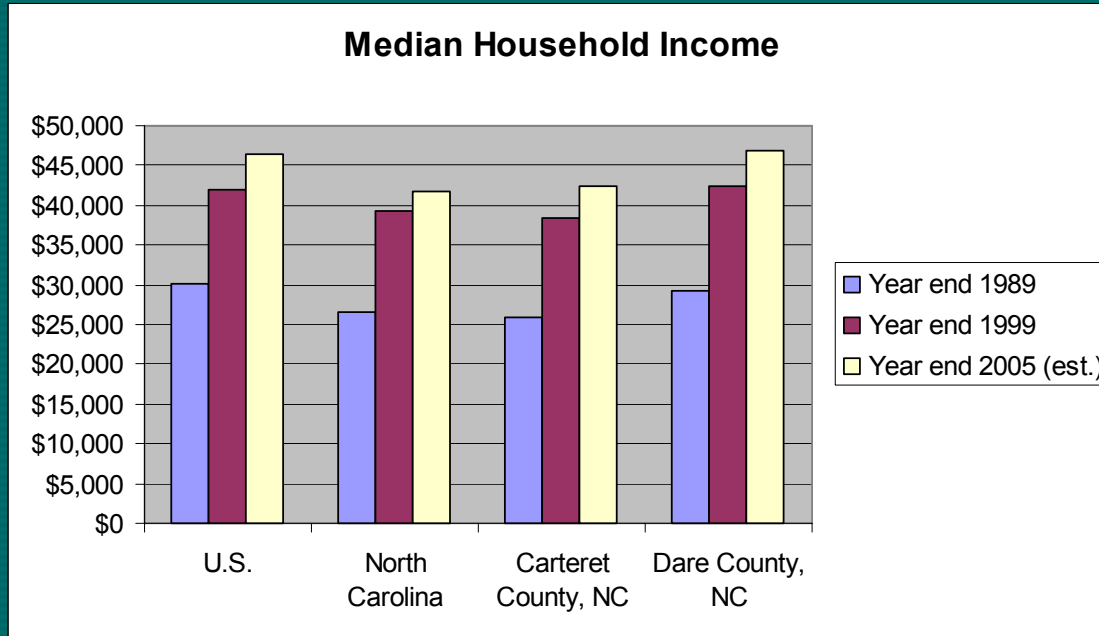
The housing market in the resort  
community “fails”

# Market Failure

Some Data



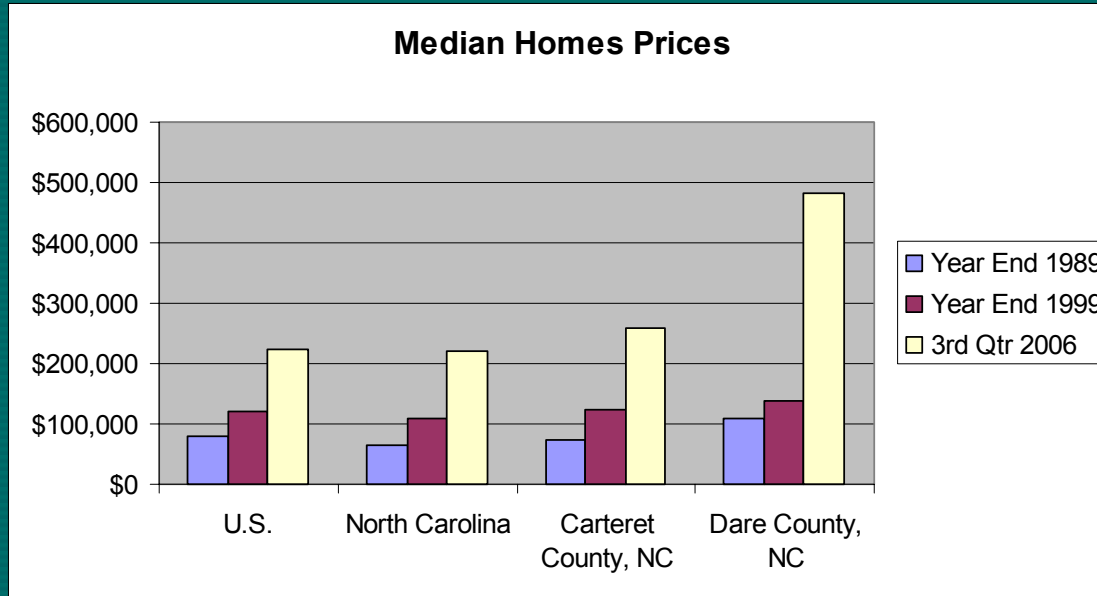
# Income



<b>Median Household Income</b>	<b>U.S.</b>	<b>North Carolina</b>	<b>Carteret County, NC</b>	<b>Dare County, NC</b>
Year end 1989	\$30,056	\$26,647	\$25,811	\$29,322
Year end 1999	\$41,994	\$39,184	\$38,344	\$42,411
Year end 2005 (est.)	\$46,326	\$41,724	\$42,299	\$46,786

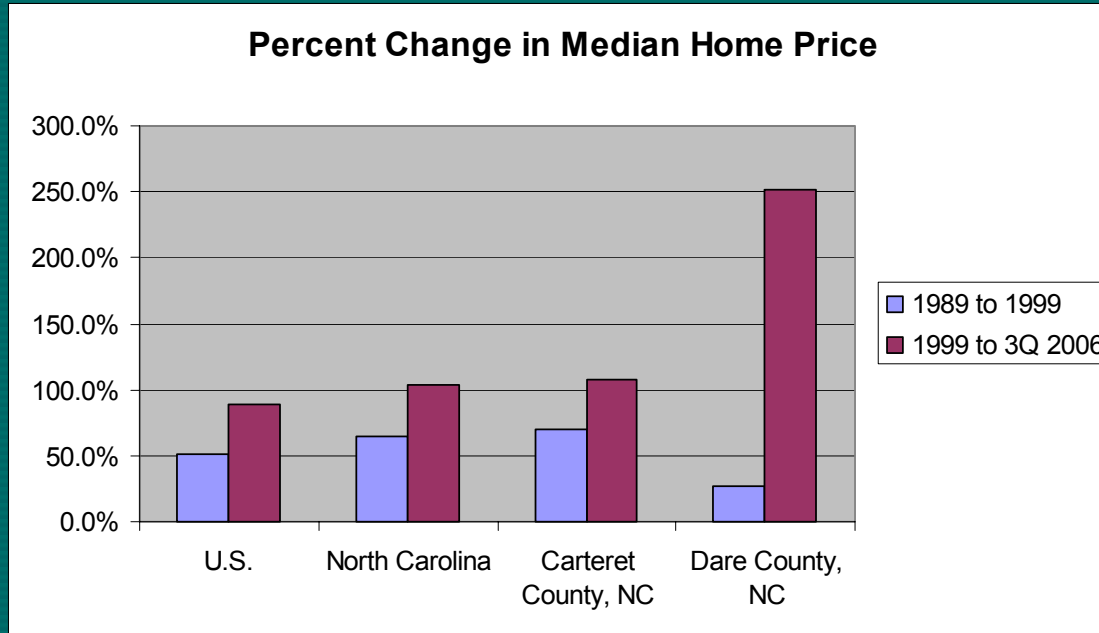
Source: U.S. Census, researcher estimates for 2005 for MSAs

# Home Prices



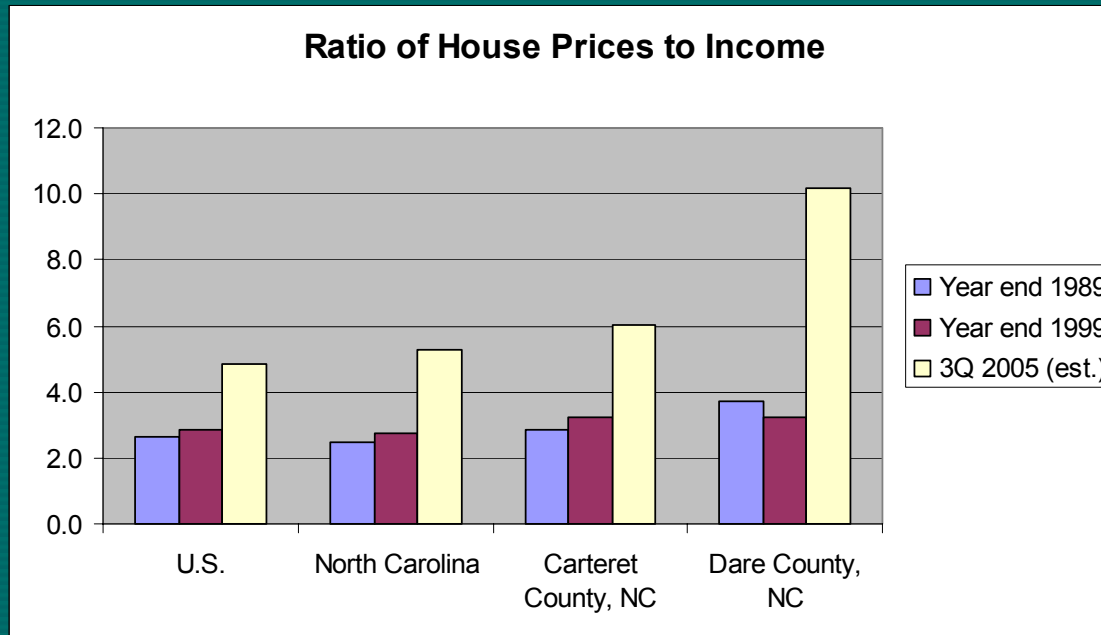
Home Prices	U.S.	North Carolina	Carteret County, NC	Dare County, NC
<b>Year End 1989</b>	\$79,100	\$65,800	\$73,100	\$108,100
<b>Year End 1999</b>	\$119,600	\$108,300	\$123,900	\$137,200
<b>3rd Qtr 2006</b>	\$225,000	\$221,147	\$257,786	\$482,608

# Home Prices



<b>Percent Change in House Prices</b>	<b>U.S.</b>	<b>North Carolina</b>	<b>Carteret County, NC</b>	<b>Dare County, NC</b>
<b>1989 to 1999</b>	51.2%	64.6%	69.5%	26.9%
<b>1999 to 3Q 2006</b>	88.1%	104.2%	108.1%	251.8%

# Housing affordability



<b>Ratio of House Prices to Income</b>	<b>U.S.</b>	<b>North Carolina</b>	<b>Carteret County, NC</b>	<b>Dare County, NC</b>
<b>Year end 1989</b>	2.6	2.5	2.8	3.7
<b>Year end 1999</b>	2.8	2.8	3.2	3.2
<b>3Q 2005 (est.)</b>	4.9	5.3	6.0	10.2

# Affordability

Households in the Carteret County able to afford the median priced house:

- 1990 - 54% of households (11,510 households)
- 2000 - 43% of households (10,753 households)
- 2005 – 15% of households (3,812 households)

# Impact on the Economy

- Difficulty in attracting workers
- Existing workers/residents “cash out” of housing and move to less expensive place
- Commute time and distances increase
  - Absenteeism/Turnover
- Wage costs increase
- Service levels decline

# Impact on a Community

- Local residents become displaced
- Less involvement in local activities
  - Schools, Little League
  - Volunteer activities
- Commute time and distances increase
  - Traffic
  - Lost family time
- The quality of life in the community declines

# When Market Failure Occurs

When housing market failure occurs a community has two choices:

- It can chose not to act
- It can chose to act, and intervene to address the housing market failure

# Choosing To Act

- Evaluate the Community
- Develop intervention strategies and implement these strategies
- Monitor the market

# The Community Evaluation and Intervention Process

## Evaluation Phase



# Housing Indicators

- Percentage of second homes
  - What is the trend?
  - Are local residents being displaced?
- New construction
  - How many units are allowed?
  - What type and price of new units are being built?
- Condo Conversions
  - Who is buying the condos?
  - Are the condos affordable to local residents?
  - Are condo conversions displacing local residents?

# Economic Indicators

- What is happening to the economy?
  - Where are the workers coming from?
    - Live locally
    - Commute a great distance
  - Is there an adequate supply of workers or is there a shortage?
  - Do the wages make sense given housing costs?

# Regulatory Constraints

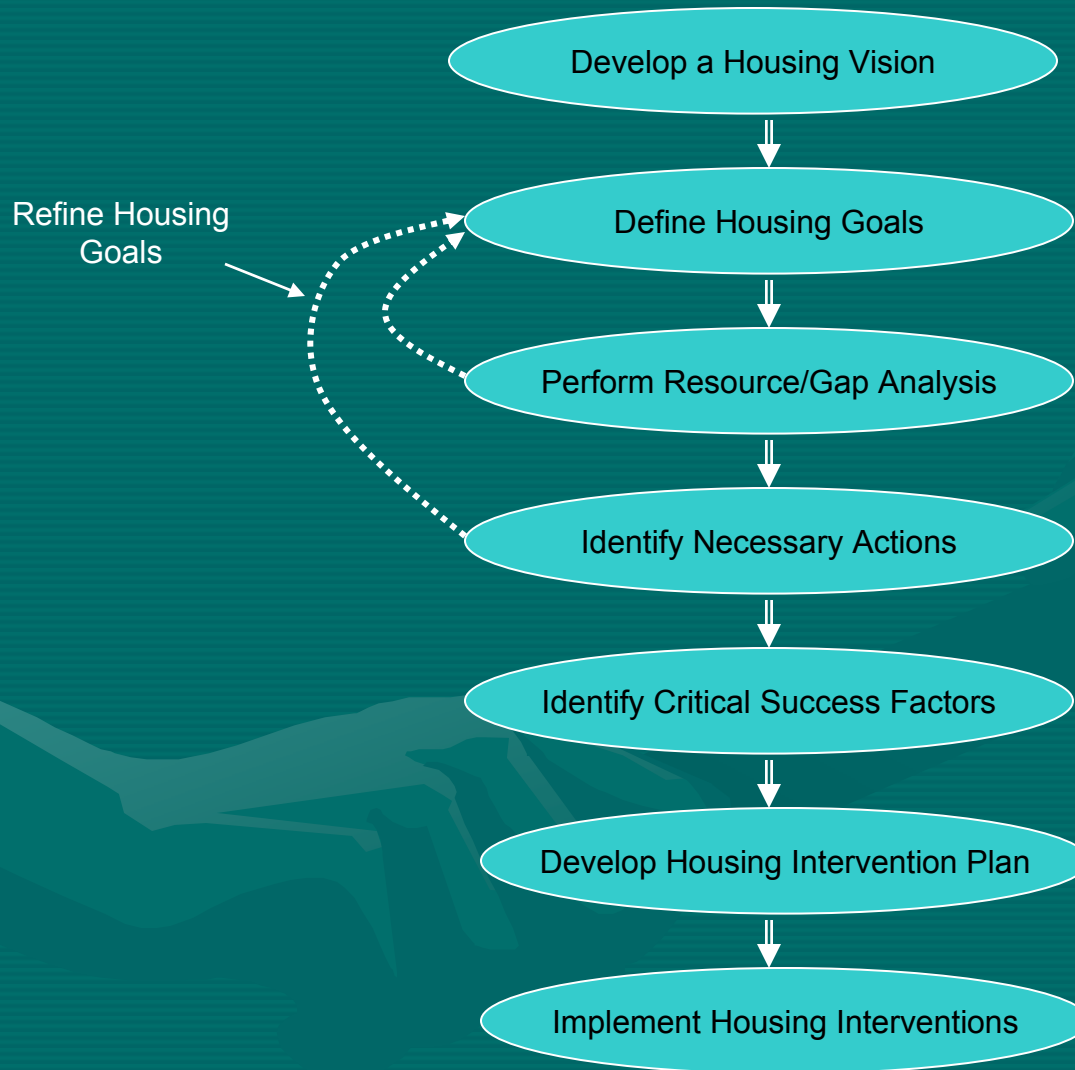
- What affect have growth management regulations had on the community? on affordable housing?
  - Do they include incentives for affordable housing?
  - Do they include disincentives for affordable housing?

# Community Intervention

- The community has recognized the existence of a housing market failure.
- A community evaluation has been performed
- The next step is an intervention

# The Community Evaluation and Intervention Process

## Intervention Phase



# Reacting to a Housing Crisis

- Build new “affordable” housing units
- Preserve existing “affordable” units used by local workers
- Assist community residents in renting or purchasing housing

# Building Affordable Units

- Use public and private housing program dollars
  - Low-income housing tax credits
  - State housing money
- Infill incentives
  - Create more buildable land
- Reuse/Rehab/Redevelopment of existing space
  - Depressed urban space
  - Under-utilized commercial space

# Building Affordable Units

- Selective up-zoning
  - Increase density
  - Remove height restrictions
- Inclusionary zoning partnerships
  - Simple idea
  - Complex to implement and administer

# Building Affordable Units

## Aspen

- Constructed over 2,000 “resident” housing units
- Utilizes a real estate transfer tax as a key source of funding
- 64% of the population lives in “resident” housing

# Building Affordable Units Whistler, BC

- Borrowed from Aspen and other places
- Constructed over 1,100 affordable housing units
- Housing authority primarily funded from impact fees
- Requires private sector development of affordable units
- 32% of the population lives in affordable units

# Preserve Existing Units

- Property tax incentives for designated affordable units
- Tenant purchase rights
  - Condo conversions
  - Trailer park conversions
- Development mitigation/replacement requirements
- “Houses on the move”

# Assistance Programs

## Housing Fund

- Renewable source of community housing dollars
- Examples of sources of funds:
  - Inclusionary Zoning buyouts
  - Impact fees, transfer fees, etc.
  - Employer contributions
  - Private investment

# Assistance Programs

## Housing Fund

- Direct subsidy to families
  - Downpayment assistance
    - Appreciation sharing
  - Rental assistance
- Subsidy to third party housing providers
  - Community Land Trust (CLT)
  - Loans and equity investment in affordable housing development

# Housing Intervention Critical Success Factors

- Political Will
- Community Will
- Housing Vision
- Housing Plan
- Political and community buy-in for the plan
- Funding
- Land
- Organizational capacity
- Policies and procedures
- Perpetual affordability

# Political Will

- Do the community's political leaders recognize that a housing crisis exists?
- Are the political leaders willing to expend their political capital to address the crisis?

# Community Will

- Do the community's informal leaders (business, religious, elites, activists) recognize that a market failure exists?
- Do they have the will to act?
- Can they mobilize others in the community to act?

# Funding

- Traditional public affordable housing programs do not work well in tourism communities
  - The income caps are too low
- Local sources of funding will be needed
  - Sales tax
  - Real estate transfer taxes
  - Impact fees
  - Donations

# Spend Wisely

- There will never be “enough” money
- Look for opportunities to leverage state and federal programs
- Look for ways to use zoning and growth management incentives to entice private affordable housing development

# Organizational Capacity

- The development and implementation of effective housing programs requires a dedicated organization
  - Qualified staff
  - A renewable and reliable source of operating funding
  - Working relationship with the town
  - Working relationship with the community and with other housing organizations

# Policies and Procedures

- Develop, Implement and Communicate the housing program policies and procedures
  - Spell the rules out in writing
  - Communicate the rules to everyone
  - Be willing to enforce the rules

# Perpetual Affordability

- Build in affordability restrictions for as long as possible
- Develop resale formulas that are fair to the residents and that keep the units affordable

# Unit Mix

- Create both rental and ownership units
- Create units for individuals and families at all stages of a life
  - Younger workers
  - Families
  - Empty nesters
  - Retirees

# Moving Forward

- Quantify the need
- Develop and implement strategies to address the crisis
- Don't be afraid to make a mistake or two
- Develop measurements of progress and success
- Publicize success

# Moving Forward

## Workforce Housing Audit

- Detailed review of programs, policies and regulations
  - Comparison to best practices
  - Existing impediments
- Evaluate effectiveness
  - Identify successes
  - Identify existing gaps
  - Progress towards goals
- Strategies to move forward

# Questions?

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